PROCEDURE NO.

201

The Accounting Cycle

Fund Accounting

Accounting is the fiscal information system for business. The function of all accounting systems is to present fairly and with full disclosure the financial position of a business in conformity with generally accepted accounting principles. Local educational agencies (LEAs), like all other types of businesses, use accounting to record, analyze, and summarize their financial activities and status. Once the information is accumulated, it is the accountant's responsibility to evaluate, interpret, and communicate the results to all interested parties.

LEA accounting (governmental accounting) shares many characteristics with commercial accounting, but it has its own information needs and reporting requirements, one of which is to enable LEAs to determine and demonstrate compliance with finance-related legal and contractual provisions.

LEA accounting systems, like those of other governmental units, are organized and operated on a *fund* basis. Accounting for LEAs is referred to as *fund accounting*. A fund is a fiscal and accounting entity with a self-balancing set of accounts; it records cash and other financial resources together with all related liabilities and residual balances.

The financial transactions of LEAs are separated into various funds in order to permit administrators to ensure, and report on, compliance with the laws and regulations that affect LEAs.

Sequence of the Accounting Cycle

The *accounting cycle* is the sequence of events of the entire accounting process, from the initial step, which is the recognition that a transaction has occurred and must be recorded, to the final step, which is the preparation of financial statements and the filing of the basic business documents and reports. This process is referred to as a cycle because the sequence is perpetually repeated. Information should flow in the following manner:

1. A transaction occurs.

2. A source document is prepared or received. Source documents include purchase orders, invoices, vouchers, check stubs, and receipts.

3. The transaction is analyzed to determine the fund to which it relates and to which it will be posted.

4. The transaction is analyzed to determine which accounts within the fund are affected (e.g., cash, accounts receivable, accounts payable, revenue, or expenditure). The transaction will result in an increase or a decrease in the balance of each account involved in the transaction.

5. The transaction is recorded in the appropriate journal.

6. From the journal each part of the transaction is posted to the appropriate account in the subsidiary ledger or General Ledger or both. At this point, the transactions are separated by fund.

7. Account balances are computed, and trial balances are prepared.

8. Adjusting and closing entries are prepared and posted.

9. Accounts are balanced, and a postclosing trial balance is prepared.

10. Financial statements and business documents are prepared.